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SIPDIS

SENSITIVE

STATE FOR EB/IFD/OMA  
TREASURY FOR DO/IDD AND OUSED/IMF  
SECDEF FOR USDP/DSAA  
PASS EXIM FOR CLAIMS -- EDELARIVA  
PASS USDA FOR CCC -- ALEUNG/DERICKSON/KCHADWICK  
PASS USAID FOR CLAIMS  
PASS DOD FOR DSCS -- PBERG

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SUBJECT: PARIS CLUB - NOVEMBER 2005 TOUR D'HORIZON

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SUMMARY  
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1. (SBU) At the November 15 Paris Club meeting, the IMF reported that the Stand-By Arrangement (SBA) with Iraq that will be presented to the IMF Board on December 23 will probably be precautionary. The Secretariat and some creditors complained that a precautionary arrangement belied Iraq's claim last year that it could not afford to make any payments to the Paris Club during the initial years of reconstruction (which led to an agreement among creditors to capitalize 100% of moratorium interest through 2007). Macedonia is interested in prepaying previously rescheduled debt at face value. The US is Macedonia's largest Paris Club creditor, with \$44 million in previously rescheduled debt - all of which can be prepaid without penalty at any time. The Secretariat intends to solicit a response from the Chinese authorities to a June letter expressing the Paris Club's interest in learning more about China's external creditor status. The US argued that no action was necessary, but the majority of creditors favored renewed outreach. Other countries discussed included Angola, Argentina, Cambodia, Congo-Brazzaville, Jordan, Kenya, Nigeria, Sao Tome and Principe, Serbia Montenegro, and the Seychelles.

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ANGOLA  
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2. (SBU) The IMF said Angola has expressed renewed interest in a Staff Monitored Program (SMP) as a step toward getting an upper credit tranche arrangement, possibly a Policy Support Instrument (PSI), and an eventual Paris Club treatment. The Secretariat surveyed creditors to see if Angola was servicing any of its Paris Club debt. The US was the only creditor to report receiving payments from Angola. (Out of \$113 million in total debt to the US, just \$7 million is in arrears. Spain, by contrast, reported \$740 million in arrears and no payments received in decades.) The Secretariat will launch a data call to get a clearer picture of the situation.

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ARGENTINA  
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3. (SBU) Italy proposed a revision to the Secretariat's draft response to Argentina's letter of September 27 seeking a restructuring of its Paris Club debt. The revision avoids reference to Paris Club arrears - which Italy believes is too politically sensitive back home - and instead urges Argentina to "cooperate with the IMF, in a manner consistent with the IMFC Communiqué of 16 April 2005." (The April communiqué called on Argentina to resolve arrears to private creditors consistent with the IMF's lending into arrears policy.) The Secretariat will send the letter on November 24 unless there are objections.

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CAMBODIA  
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4. (SBU) The US reported that it was working with the authorities to resolve longstanding data issues that have held up completion of a bilateral agreement implementing the 1995 Paris Club agreement. The US noted that, even after the 1995 agreement is implemented, Cambodia would still have substantial arrears to the US that must be addressed if Cambodia wishes to obtain a new Poverty Reduction and Growth Facility (PRGF) with the IMF. The IMF said Cambodia would not be in a position to pay these arrears and would have to seek a new Paris Club treatment. Russia said it had reconciled the data with Cambodia, but the bilateral has not been agreed due to a dispute over the interest rate to be charged on rescheduled post-cutoff debt. Russia's next meeting with the Cambodian authorities is scheduled for January. Russia clarified that, once it implements the 1995 Paris Club agreement, Cambodia will have no further arrears to Russia, unlike the case of the US. (Russia's 1997 accession agreement with the Paris

Club stipulates that, when implementing Paris Club deals concluded prior to 1997, Russia must include all arrears as of the date the bilateral is signed.)

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CHINA

15. (SBU) The Secretariat sought creditors' recommendations on what steps to take given China's non-response to the June 22 letter expressing creditors' desire to learn more about China's status as an external creditor. The US suggested that no action was necessary and questioned whether Chinese membership was in the interest of the club. Most other creditors, however, favored a more proactive approach and were open to considering eventual Chinese membership, pending better information on China's creditor status. Several creditors argued that, as the world of creditors evolves, so should the Paris Club. The Secretariat said it would follow up with the Chinese through informal channels.

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CONGO-BRAZZAVILLE

16. (SBU) The IMF reported that Congo's PRGF is on track, and that a stand-alone decision point request under the Heavily Indebted Poor Countries (HIPC) program is scheduled for December 19. The second PRGF review is anticipated for February or March.

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IRAQ

17. (SBU) The IMF said an SBA will be presented to the Executive Board on December 23. Iraq is expected to treat the arrangement as precautionary. The precautionary nature of the program took some creditors by surprise. The Secretariat noted that the lack of a financing gap contradicted Iraq's claim last year that it had no capacity to make payments to Paris Club creditors given severe balance of payments problems. It said the Paris Club normally doesn't provide debt treatments based on precautionary programs, and that a disbursing program is necessary to ensure strong Fund surveillance. Germany, Netherlands, and Sweden made similar remarks. The US pointed out that Iraq's Emergency Post Conflict Assistance (EPCA) program disbursed 436 million dollars, and that the 2004 Agreed Minute linked the second phase of debt relief to an upper credit tranche program, not necessarily a disbursing upper credit tranche program. The IMF helpfully added that a precautionary SBA has the same degree of conditionality as a disbursing SBA. Moreover, the IMF's financial commitment is the same: funds are placed in reserve and can be drawn by the program country (as has happened many times in the past). The IMF noted that oil revenues in Iraq are higher than expected due to high oil prices, but said the situation could easily change given the volatility of oil prices. Separately, the UK, the Netherlands, Korea, Denmark, Switzerland, and Japan indicated that they hope to conclude their bilateral agreements with Iraq by the end of the year.

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JORDAN

18. (SBU) The Secretariat distributed a letter from Jordan requesting an increase in its debt swap ceiling from 30% to 50%. At the G-7 debt experts meeting in October, Germany, Japan and Canada indicated they were still opposed to lifting the ceiling because they believe higher debt swap ceilings allow creditors who participate in swaps to receive more favorable treatment than those who do not. Canada is also concerned about France's previous practice of using higher levels of discounts in debt for equity swaps to provide more favorable financing terms on unrelated commercial transactions and thus evade OECD export credit disciplines. Jordan's letter will be discussed at the December Paris Club meeting.

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KENYA

19. (SBU) The IMF said there had been a number of delays in the PRGF reviews due to governance issues. Overall macroeconomic performance has been stronger than expected, and the second review is now scheduled for December 21. Kenya's 2004 agreement with the Paris Club provided that the third stage of rescheduling, covering maturities coming due in 2006, was contingent on a successful completion of the fourth review. The Secretariat reminded creditors that the second phase of the

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current Paris Club agreement entered into force after Kenya completed the first review of the PRGF (rather than the second review, as stipulated in the agreement). The question that must be decided by creditors, most likely in January, is whether the third phase should enter into force upon completion of the second review. There were no comments from creditors at the meeting, suggesting that they had no objections in principle to proceeding in this manner.

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#### MACEDONIA

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¶10. (SBU) Macedonia has sent a letter to the Secretariat asking about the feasibility of prepaying at face value all or most of debt previously rescheduled under the 1995 Paris Club agreement. Macedonia's primary motivation is to refinance the debt at a lower interest rate in the Eurobond market. The timetable envisioned is fairly compressed: Macedonia would like to receive expressions of interest by December and execute the prepayment in January. According to the government's own records, Macedonia has \$94 million in previously rescheduled debt to the Paris Club, nearly half of which is owed to the US. (Ex-Im Bank has all of the previously rescheduled US debt. The bilateral that implemented the 1995 Paris Club agreement allows for prepayment without penalty, but in inverse order of scheduled maturity of the principal installment. The debt is broken into two loans - one with \$36 million outstanding, the other with \$8 million.) Most creditors expressed their support in principle for Macedonia prepayment proposal. Italy, however, reported arrears related to a loan to the former Yugoslavia that Macedonia must clear before a prepayment operation can proceed.

#### NIGERIA

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¶11. (SBU) The Secretariat reviewed implementation procedures regarding the recent Paris Club agreement. Austria was the only country to report not having received its pro rata payment, apparently due to technical reasons. The Secretariat said it had circulated a bilateral agreement template that creditors were free to use. IMF staff expect to complete work on a first review under Nigeria's Policy Support Instrument (PSI) in January and present it to the IMF Executive Board in April or May. In response to a question from Spain, the Secretariat said the OECD's Development Assistance Committee had yet to decide whether to treat Nigeria's buyback discount as Official Development Assistance.

#### SAO TOME AND PRINCIPE

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¶12. (SBU) Due to revised data on its four creditors' books, STP may be asked to make a slightly larger cash payment (perhaps by 10%) than originally thought. The US is not a creditor.

#### SERBIA MONTENEGRO

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¶13. (SBU) The IMF said completion of the final review of the Extended Fund Facility (EFF) is still uncertain. The review could come to the Executive Board in January or February, which would require a technical extension of the program. Germany asked whether creditors should consider an extension of the current Paris Club arrangement (which provides for the capitalization of 60% of interest payments) to match any extension in the program. The US argued that Serbia Montenegro should not be rewarded for dithering on reforms. The Secretariat agreed, noting that the authorities had not requested an extension of the Paris Club arrangement, and that to offer such an extension now would give the authorities less incentive to complete the final review on time.

#### SEYCHELLES

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¶14. (SBU) The IMF said the Seychelles is experiencing severe BOP and debt problems. Several creditors (Japan, Italy, UK, Germany, France, Spain, Belgium) reported arrears; some supported sending a letter to the authorities urging them to clear arrears and seek an IMF program. The Secretariat said it would wait for the results of the next IMF mission to the Seychelles before considering next steps. The US is not a creditor.

#### METHODOLOGICAL DISCUSSION: SWAPS, WEBSITE AND HANDBOOK

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¶15. (SBU) Creditors were divided over Norway's proposal to lift the ceiling on debt-for-development swaps. The US, the UK, and Canada were open to the proposal, as long as the debt-for-development swaps were not structured to provide cash to the creditor. Other creditors (Germany, Japan, Italy, Russia) opposed lifting the ceiling, mainly on the grounds that the Paris Club should be a creditor forum, not a development institution. Germany stressed that lifting the ceiling would increase political pressure to do swaps. Creditors agreed to add information to the Paris Club website regarding prepayment and buyback modalities. Australia offered to put together a technical handbook, with the aim of helping future delegates, as well as debtor countries, familiarize themselves with the Paris Club process, and welcomed input from other creditors.

STAPLETON#